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TAGS: ELAB, SOCI, GW

SUBJECT: SOCIAL SECURITY DILEMMA - FRG'S TOP DOMESTIC

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POLITICAL ISSUE

REF: (A) BONN 01653; (B) BONN 01304; (C) BONN 0765;

(D) BONN 20954; (E) BONN 20857; (F) BONN 18431

SUMMARY: THE PROBLEM OF THE PENSION FUNDS IS CONSIDERED
BY MANY TO BE THE MOST IMPORTANT DOMESTIC POLITICAL

ISSUE IN THE FRG. IT WILL CONTINUE TO BE A DOMINANT ISSUE FOR AT LEAST THE NEXT SEVERAL MONTHS AND, IN ALL LIKELIHOOD, FOR THE NEXT SEVERAL YEARS. THE PURPOSE OF THIS MESSAGE IS TO SUPPLEMENT OUR SPOT REPORTING BY PROVIDING SOME BACKGROUND ON THE ROOTS OF THE PROBLEM, ANALYZING THE PRESENT DIFFICULTIES, AND EVALUATING THE PROSPECTS AND IMPACT OF VARIOUS PROPOSALS FOR CORRECTIVE REFORM OF THE PENSION INSURANCE SYSTEM. END SUMMARY.

1. PROBLEM

A) BRIEFLY STATED, THE PENSION FUNDS IN THE FRG ARE RUNNING OUT OF MONEY. CURRENT ESTIMATES SHOW THAT, UNLESS THERE IS SOME POSITIVE GOVERNMENTAL ACTION, RESERVES FOR THE OLD AGE INSURANCE SYSTEM WILL BE EXHAUSTED SOMETIME IN 1979.

B) THE FINANCIAL CONDITION OF THE PENSION FUNDS WAS AN ISSUE IN THE OCTOBER BUNDESTAG ELECTIONS IN THE FRG, WHICH THE SPD/FDP COALITION WON BY A NARROW MARGIN. DURING THE CAMPAIGN, CHANCELLOR SCHMIDT AND OTHER SPD/FDP PARTY LEADERS STATED REPEATEDLY THAT THE FINANCIAL CONDITION OF THE FUNDS WAS SOUND AND THAT NO INCREASE IN CONTRIBUTIONS FROM WORKERS OR POSTPONEMENT OF PERIODIC "DYNAMIC ADJUSTMENTS"(WHICH RAISE PENSIONS IN LINE WITH WAGES) WERE NECESSARY. NEVERTHELESS, THE FACTS NOW SHOW THAT EXPENDITURES CONTINUE TO CLIMB BEYOND THE LEVEL OF THE INCOME FROM CONTRIBUTIONS. EARLY IN DECEMBER, LEAKS INDICATED THAT THE COALITION, CONTRARY TO PRE-ELECTION PROMISES, PLANNED TO POSTPONE LIMITED OFFICIAL USE

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THE NEXT "DYNAMIC ADJUSTMENT" SCHEDULED FOR JULY 1977. SCHMIDT WAS FORCED TO MAKE A HASTY AND EMBARRASSED DENIAL IN THE FACE OF A NATION-WIDE WAVE OF PROTEST. A FEW DAYS LATER, THE GOVERNMENT ANNOUNCED ANOTHER PROGRAM, THIS ONE IN LINE WITH ITS PRE-ELECTORAL PROMISES BUT WHICH MANY EXPERTS CONSIDER INSUFFICIENT. SINCE THEN, PUBLIC DEBATE HAS RAGED AROUND THE ISSUE OF THE PENSION FUNDS. THE CREDIBILITY OF THE SCHMIDT GOVERNMENT AS WELL AS THE SECURITY OF THE PENSIONERS IS CLEARLY AT STAKE.

2. THE SYSTEM

THE FRG'S OLD AGE INSURANCE PENSION SYSTEM, ADMINISTERED BY 19 SEMI-AUTONOMOUS, GOVERNMENT-SUPERVISED AGENCIES, PROVIDES FOR MANDATORY COVERAGE OF ALL BLUE AND WHITE COLLAR WORKERS. CONTRIBUTIONS AMOUNT TO 18 PERCENT OF EARNINGS, SHARED EQUALLY BETWEEN EMPLOYER AND EMPLOYEE, UP TO A CEILING WHICH IS ADJUSTED YEARLY IN LINE WITH WAGE DEVELOPMENTS. IN 1976, THIS CEILING WAS DM 3,100

PER MONTH. HEALTH INSURANCE, ADMINISTERED BY OVER 1800 INDIVIDUAL HEALTH INSURANCE FUNDS, IS ALSO COMPULSORY UP TO AN INCOME CEILING CURRENTLY FIXED AT 75 PERCENT OF THAT FOR OLD AGE INSURANCE. PENSIONERS ARE AUTOMATICALLY COVERED FREE OF ANY EXTRA CHARGES FOR HEALTH INSURANCE WITH OLD AGE INSURANCE FUNDS ASSUMING PAYMENT OF CONTRIBUTIONS TO THE INDIVIDUAL HEALTH INSURANCE FUNDS IN LUMP SUM PAYMENTS.

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PENSIONS ARE REGULARLY READJUSTED IN LINE WITH THE SO-CALLED "DYNAMIC FORMULA", WHICH IS BASED ON THE PRINCIPLE THAT PENSIONERS SHOULD SHARE IN THE GROWING PROSPERITY AND STANDARD OF LIVING OF THE ACTIVE WORK FORCE. THE "DYNAMIC FORMULA", INTRODUCED IN 1957, FORMALLY TIES ADJUSTMENTS IN THE LEVELS OF PENSIONS TO WAGE AND SALARY LEVELS, CONSUMER PRICE, GNP AND PRODUCTIVITY DEVELOPMENTS, BUT FOR PRACTICAL PURPOSES ADOPTS THE INCREASE IN GROSS EARNINGS AS THE DECISIVE CRITERION. BETWEEN 1969 NZQARAAGPENSIONS WERE INCREASED UNDER THIS PROVISION BY A TOTAL OF 109 PERCENT, WHILE NET INCOMES (AFTER TAX AND SOCIAL INSURANCE CONTRIBUTIONS) OF ACTIVE WORKERS ROSE ONLY 80 PERCENT DURING THE SAME PERIOD.

3. THE 1972 PENSION REFORM LIBERALIZED ELIGIBILITY TO THE OLD AGE INSURANCE SYSTEM AND, IN GENERAL, ACCEPTED A SIGNIFICANTLY HIGHER RATE OF EXPENDITURES. UNDER ITS PROVISIONS, WORKERS WERE ALLOWED TO RETIRE AT 63 (62 IF DISABLED) WITH A REDUCED PENSION RATHER THAN 65 AS WAS THE CASE PREVIOUSLY. MINIMUM PENSIONS WERE RAISED, ADJUSTMENTS UNDER THE "DYNAMIC FORMULA" WERE MOVED UP BY 6 MONTHS, AND ELIGIBILITY FOR COVERAGE BY THE PENSION FUNDS WAS EXPANDED TO INCLUDE SELF-EMPLOYED PERSONS AND OTHER GROUPS, SUCH AS HOUSEWIVES, SUBJECT TO THE BACK PAYMENT OF CONTRIBUTIONS FOR THE REQUIRED 15 YEARS OF COVERAGE BEFORE RETIREMENT.

4. AT THE TIME OF ITS PASSAGE, THE PENSION REFORM OF 1972 WAS EXPECTED TO COST AN ADDITIONAL DM 170-200 BILLION THROUGH 1986 WHICH THE THEN BOOMING GERMAN ECONOMY WAS BELIEVED FULLY CAPABLE OF HANDLING. THIS INCREASE WAS EXPECTED TO BE MADE UP BY RAISING THE EMPLOYER/EMPLOYEE CONTRIBUTION FROM 17 TO 18 PERCENT AND BY THE GROWING LABOR FORCE CONTRIBUTING TO THE FUNDS WELL INTO THE 1980'S. (BETWEEN 1968 AND 1972, LIMITED OFFICIAL USE

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CONTRIBUTIONS ROSE FROM 14 TO 18 PERCENT.) T GE WERE,

AT THAT TIME, OVER 26.6 MILLION PERSONS EMPLOYED, INCLUDING 2.3 MILLION FOREIGN WORKERS, OF WHICH ABOUT 22 MILLION WERE PAYING PENSION CONTRIBUTIONS.

5. THE RECESSION, HOWEVER, DESTROYED ANY ILLUSIONS OF AN EVER-EXPANDING LABOR FORCE PAYING TO COVER INCREASED EXPENDITURES. SINCE 1969, WHEN THE SPD/FDP COALITION CAME TO POWER, EXPENDITURES FOR OLD AGE INSURANCE BENEFITS HAVE DOUBLED WHILE THE NUMBER OF WORKERS EMPLOYED AND CONTRIBUTING TO THE SYSTEM DROPPED OVER 1 MILLION.

6. IN 1972, 43.2 PERCENT OF THE GERMAN POPULATION WAS EMPLOYED (26.6 MILLION); THIS DROPPED TO 43.0 PERCENT (26.7 MILLION) IN 1973, 42.2 PERCENT (26.2 MILLION) IN 1974, 40.9 PERCENT (25.4 MILLION) IN 1975, AND AN ESTIMATED 40.3 PERCENT (24.8 MILLION) IN 1976. AT THE SAME TIME THAT THE NUMBER OF ACTIVE WORKERS DECLINED, THE NUMBER OF OLD AGE PENSIONS BEING DISBURSED GREW FROM 6.0 MILLION IN 1972 TO AN ESTIMATED 6.9 MILLION IN 1976.

7. ONE FAVORABLE SIGN, HOWEVER, IS THE DEMOGRAPHIC DATA INDICATING THAT THERE WILL BE FEWER AND FEWER PERSONS ELIGIBLE FOR PENSIONS. THIS NUMBER IS EXPECTED TO DECLINE INTO THE 1990'S AS THE DEMOGRAPHIC CHARTS REFLECT THE CASUALTIES OF WW II. IN 1976, THERE WERE ABOUT 10.9 MILLION PERSONS IN AGE GROUPS QUALIFYING THEM FOR OLD AGE PENSIONS. (MALES IN GENERAL, QUALIFYING BETWEEN THE AGES OF 62-65 AND FEMALES, IF EMPLOYED, AT 60.) IN 1978, THERE ARE EXPECTED TO BE ABOUT 10.8 MILLION PEOPLE IN THESE AGE CATEGORIES; IN 1980 -- 10.6 MILLION; IN 1984 -- 10.4 MILLION; IN 1988 -- 10.3 MILLION; AND IN 1990 -- 10.1 MILLION.

8. PRESENT LAW REQUIRES THAT THE PENSION FUNDS MAINTAIN A MINIMUM RESERVE EQUAL TO 3 MONTHS EXPENDITURES. LIMITED OFFICIAL USE

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AT THE TIME THE 1972 REFORM WAS PASSED, THE GOVERNMENT ESTIMATED THAT THESE RESERVES WOULD EXCEED DM 220 BILLION BY 1986. ECONOMIC DEVELOPMENTS HAVE NOT BORNE OUT THE OPTIMISM REFLECTED IN THAT ESTIMATE. ALTHOUGH THERE ARE A VARIETY OF CURRENT ESTIMATES ON THE FINANCIAL STATUS AND FUTURE OF THE PENSION FUNDS UNDER DISCUSSION, MOST COME TO THE CONCLUSION THAT, UNLESS SOME GOVERNMENTAL ACTION IS TAKEN, RESERVES OF THE OLD AGE INSURANCE SYSTEM WILL BE EXHAUSTED WELL BEFORE 1980. THE FOLLOWING DATA, RECENTLY COMPILED BY THE

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ASSOCIATION OF GERMAN OLD AGE PENSION INSURANCE

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SYSTEMS (ALSO USED BY THE MINISTRY OF LABOR), PROJECTS
THE FOLLOWING LEVELS OF RESERVES IN THE ABSENCE OF ANY
GOVERNMENT ACTION:

END OF 1976 DM 34.5 BILLION
END OF 1977 DM 18.5 BILLION
END OF 1978 DM 7.2 BILLION
END OF 1979 DM MINUS 4.6 BILLION
END OF 1980 DM MINUS 16.7 BILLION.

9. PROPOSED SOLUTION

IN ORDER TO MEET THE GROWING DEFICITS -- BETWEEN NOW
AND 1980, TOTAL EXPENDITURES ARE EXPECTED TO EXCEED
TOTAL INCOME BY DM 83 BILLION --THE GOVERNMENT HAS
ANNOUNCED WHAT IT HOPES WILL BE A POLITICALLY ACCEPTABLE
PLAN TO RESTORE FINANCIAL VIABILITY TO THE PENSION
FUNDS. THE PARTICULARS REFLECT A COMPROMISE (OFTEN
HARD FOUGHT) BETWEEN THE SPD AND FDP COALITION PARTIES
AND ARE SUBJECT TO BUNDESTAG (WHERE THE COALITION HAS
A MAJORITY.AND PERHAPS TO BUNDESRAT APPROVAL ALSO
(WHERE THE OPPOSITION COULD BLOCK THE GOVERNMENT PRO-
POSAL).

CHANCELLOR SCHMIDT OUTLINED THE GOVERNMENT PROPOSAL IN
HIS INAUGURAL POLICY STATEMENT TO THE BUNDESTAG ON
DECEMBER 16, 1976. HE SAID THAT A NEW GOVERNMENT PRO-
GRAM WOULD BE SUBMITTED TO THE BUNDESTAG BY SPRING AND
REAFFIRMED GOVERNMENT ANNOUNCEMENTS THAT:

A) OLD AGE PENSIONS WILL BE INCREASED 9.9 PERCENT AS
PROMISED EFFECTIVE JULY 1, 1977. THE NEXT SO-CALLED
"DYNAMIC" ADJUSTMENT WILL BE DELAYED SIX MONTHS AND
DUE ON JANUARY 1, 1979.

B) THE RATE OF OLD AGE INSURANCE CONTRIBUTIONS WILL BE
UNCHANGED. (THE GOVERNMENT DOES NOT ACCEPT RECOMMENDA-
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TIONS TO RAISE CONTRIBUTIONS FROM 18 TO 19 PERCENT.)

C) BEGINNING ON JANUARY 1, 1979, PENSION ADJUSTMENTS
WILL BE BASED ON THE TAKE-HOME PAY OF ACTIVE WORKERS
(GROSS EARNINGS MINUS INCOME AND SOCIAL SECURITY TAXES).
GROSS INCOME WILL STILL BE USED AT THE TIME OF RETIRE-
MENT TO CALCULATE THE BASE PENSION. (BY POST-
PONING THE ANNUAL "DYNAMIC" INCREASES AND CALCULATING
THEM ON THE BASIS OF NET, RATHER THAN GROSS WAGE
DEVELOPMENTS, THE GOVERNMENT HOPES TO SAVE DM 19
BILLION THROUGH 1980.)

D) THE OLD AGE INSURANCE SYSTEM WILL REDUCE PAYMENTS TO THE HEALTH INSURANCE FUNDS MADE IN COMPENSATION FOR THE GRANTING OF FREE MEDICAL SERVICES TO PENSIONERS. BY REDUCING REIMBURSEMENT TO THE HEALTH INSURANCE FUNDS FROM 17 TO 11 PERCENT OF TOTAL PENSION EXPENDITURES, THE GOVERNMENT EXPECTS THE OLD AGE INSURANCE FUNDS WILL SAVE ABOUT DM 32 BILLION THROUGH 1980. IF THIS IS ACCEPTED, THE HEALTH INSURANCE FUNDS WILL BE COMPELLED TO RAISE THEIR "PREMIUMS., WHICH ALREADY HAVE BEEN RAISED SINCE 1970 FROM 8.2 TO 11.3 PERCENT. (EMPLOYERS' COST OF PROVIDING SICK PAY FOR 6 WEEKS RAISES THIS TO A TOTAL OF 16 PERCENT.)

TO COMPLEMENT THE PROPOSALS REAFFIRMED BY SCHMIDT, VARIOUS "TECHNICAL" ADJUSTMENTS, SOME WITH MAJOR IMPACT, HAVE BEEN ANNOUNCED PIECEMEAL SINCE NOVEMBER. THEY INCLUDE:

A) REQUIRING THE FEDERAL EMPLOYMENT SERVICE (WHICH ADMINISTERS THE UNEMPLOYMENT INSURANCE SYSTEM), AS OF 1979, TO PAY THE FULL AMOUNT OF OLD AGE INSURANCE CONTRIBUTIONS FOR ALL UNEMPLOYED PERSONS AND TO ASSUME THE COSTS OF VOCATIONAL REHABILITATION PROGRAMS NOW OPERATED BY THE OLD AGE INSURANCE SYSTEM. (GOVERNMENT LIMITED OFFICIAL USE

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ESTIMATES INDICATE THIS TRANSFER WOULD CUT THE DEFICIT OF THE PENSION FUNDS BY DM 3.1 BILLION IN 1979 AND AGAIN IN 1980. THIS STEP IS RATIONALIZED ON THE GROUNDS THAT A WORKER'S TIME SPENT ON THE UNEMPLOYMENT ROLLS IS CREDITED TO WORKING TIME WHEN HIS PENSION IS COMPUTED DESPITE THE FACT THAT HE DID NOT CONTRIBUTE DURING THAT TIME. THE ADVANTAGE IS THAT NO NEW INCREASE IN CONTRIBUTIONS WILL BE INVOLVED ; THE DISADVANTAGE IS THAT AN INCREASE FROM 2 TO 3 PERCENT, EFFECTIVE JANUARY 1, 1976, WILL NOW BECOME PERMANENT.)

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B) BASE PENSIONS FOR WORKERS RETIRING AFTER 1977 WILL
BE BASED ON THE ARITHMETIC MEANS OF THE AVERAGE ANNUAL
WAGES OF ALL INSURED WORKERS IN THE THREE YEARS IMME-
DIATELY PRECEDING (I.E., 1977, 1976, AND 1975),
RATHER THAN THE THREE MOST RECENT YEARS FOR WHICH
STATISTICS ARE AVAILABLE (I.E., 1976, 1975, AND
1974) AS REQUIRED UNDER THE OLD FORMULA. (THE EFFECT
OF THIS ADJUSTMENT IS TO FACTOR OUT THE YEAR 1974,
IN WHICH A 13 PERCENT INCREASE IN EARNINGS WAS RECOR-
DED. PENSIONS FOR WORKERS RETIRING IN 1978 WILL BE
7.3 PERCENT HIGHER THAN 1977, BUT LESS THAN THE 8.3

PERCENT IF CALCULATED USING THE 1974 FIGURES. THIS MODIFICATION WILL SAVE THE OLD AGE INSURANCE SYSTEM AN ESTIMATED DM 50 MILLION.)

C) THE GOVERNMENT WILL REPAY DEBTS AMOUNTING TO DM 2.75 BILLION TO THE OLD AGE INSURANCE SYSTEM BEFORE THEY ARE DUE, THEREBY REDUCING THE EXPECTED DEFICIT IN 1977. (THIS DOES NOT HAVE TO BE DONE THROUGH THE BUDGET, SINCE IT SIMPLY INVOLVES PREMATURE REDEMPTION OF DEBT; IT WILL, HOWEVER, INCREASE THE NEW BORROWING THAT THE MINISTRY HAS TO DO.)

D) TO MEET THE IMMEDIATE NEED FOR CASH, THE WHITE COLLAR WORKERS' OLD AGE INSURANCE SYSTEM WILL SELL DM 3.7 BILLION WORTH OF SECURITIES FROM ITS ACCUMULATED RESERVE FUNDS.

E) THE LEGAL REQUIREMENT THAT RESERVES EQUAL THREE MONTHS' EXPENDITURES WILL BE REDUCED TO 1 MONTH, THEREBY FREEING OVER DM 20 BILLION BY 1980. (THIS WILL CONSTITUTE AN ADDITIONAL BURDEN ON THE CAPITAL MARKET, WHICH MAY OR MAY NOT BE A PROBLEM DEPENDING ON OTHER DEMANDS ON THAT MARKET IN 1978/79/80.)

10. ACCORDING TO MINISTER OF LABOR EHRENBURG, THE LIMITED OFFICIAL USE

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PENSION FUNDS RESERVES AT THE END OF 1976 WERE DM 35.8 BILLION, SUFFICIENT TO COVER MONTHLY EXPENDITURES FOR 5.3 MONTHS. IF THE GOVERNMENT'S PROGRAM IS ADOPTED, EHRENBURG CLAIMS THE RESERVES FOR THE PENSION FUNDS WILL BE AFFECTED AS FOLLOWS:

END OF 1976 RESERVES COVER 5.3 MONTHS EXPENDITURES
END OF 1977 RESERVES COVER 4.1 MONTHS EXPENDITURES
END OF 1978 RESERVES COVER 2.2 MONTHS EXPENDITURES
END OF 1979 RESERVES COVER 2.0 MONTHS EXPENDITURES
END OF 1980 RESERVES COVER 1.9 MONTHS EXPENDITURES.

11. EVALUATION

CRITICISM OF THE SCHMIDT GOVERNMENT'S HANDLING OF THE PENSION FUND PROBLEMS CENTERS ON THE FACT THAT THE COALITION'S CAMPAIGN PROMISES HAD FORECLOSED THE MOST DIRECT AND PROBABLY MOST EFFICIENT SOLUTIONS, I.E., POSTPONING THE NEXT ADJUSTMENT DUE JULY 1, 1977 AND RAISING FROM 18 TO 19 PERCENT THE CONTRIBUTIONS TO THE OLD AGE INSURANCE SYSTEM. THE COALITION IS THUS FORCED TO SEEK RELIEF BY MORE OBLIQUE ROUTES, SUCH AS TRANSFERRING MONEY FROM OTHER FUNDS TO THE PENSION SYSTEM (WITH A SUBSEQUENT CUT IN SERVICES OR INCREASE

IN RATES). SCHMIDT WILL HAVE TO FIND A SOLUTION WITH-
OUT BREAKING HIS CAMPAIGN PROMISES; HIS PRESTIGE IS
ON THE LINE AND HE KNOWS IT. THE SPECIFIC MEASURES
RELEASED THUS FAR HAVE FOLLOWED THE OUTLINE PRESENTED
BY SCHMIDT IN HIS GOVERNMENT POLICY STATEMENT. NEVER-
THELESS, THE TACTICS OF ANNOUNCING MAJOR CHANGES IN
THE SYSTEM PIECE BY PIECE AND DEPICTING THEM AS
"TECHNICAL DETAILS" HAVE NOT HELPED THE GOVERNMENT'S
CREDIBILITY.

THE GOVERNMENT HAS BEEN STRONGLY CRITICIZED FOR
COVERING UP THE REAL SITUATION DURING THE ELECTION
CAMPAIGN AND FOR WITHHOLDING INFORMATION OF THE STATUS
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OF THE FUNDS EVEN NOW. SO FAR, NO OFFICIAL FIGURES ON
PENSION FUND INCOME AND EXPENDITURES HAVE BEEN RE-
LEASED FOR YEARS AFTER 1974 (BEFORE THE RECENT ECO-
NOMIC RECESSION).

SCHMIDT'S TASK IS CONFOUNDED BY DISAGREEMENT WITHIN
THE COALITION AND ITS SUPPORTERS ON HOW THE PROBLEM
SHOULD BE SOLVED. HIS POPULAR LABOR MINISTER WALTER
ARENDT RESIGNED, LABOR STATE SECRETARY HEINZ EICHER
"RETIRED", AND THE DIRECTOR OF THE MINISTRY SOCIAL
SECURITY DEPARTMENT, DR. DETLEV ZOELLNER, HAS BEEN

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TRANSFERRED OUT OF THE MINISTRY, ALL SUPPOSEDLY OVER
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THIS ISSUE. THE UNIONS -- A BASTION OF SPD SUPPORT
-- RECOGNIZE THAT THE MATTER IS URGENT AND HAVE
SUGGESTED RAISES IN CONTRIBUTIONS WHILE FDP REMAINS
ADAMANT AGAINST ANY HIKE.

ANY SOLUTION MUST BE ACCEPTABLE, ALSO, TO AT LEAST
PART OF THE OPPOSITION, SINCE ANY FINANCIAL REFORM
CONSIDERED MAJOR REQUIRES BUNDESRAT APPROVAL, WHERE
THE CDU/CSU HOLDS SWAY. THE CDU'S LEADERSHIP ACCUSES
SCHMIDT OF WITHHOLDING INFORMATION AND REFUSING TO
"BITE THE BULLET". (THEY ARE PARTLY TO BLAME, SOME
SAY, FOR THE PRESENT DIFFICULTIES, SINCE THE 1972 RE-
FORM PACKAGE INCLUDED COSTLY MEASURES INTRODUCED BY
THE CDU/CSU.) CSU'S STRAUSS CLAIMS THAT THE PROBLEM,
AS HE PREDICTED, REFLECTS THE FAILURE OF THE
SOCIALIST MODEL. THE OPPOSITION CDU/CSU SAYS IT WILL
REFUSE TO PRESENT ANY ALTERNATIVE PROPOSALS UNTIL THE
GOVERNMENT RELEASES ALL THE FACTS NECESSARY CLEARLY TO
ASCERTAIN THE PRESENT SITUATION.

12. PROSPECTS

THE MINISTRY OF LABOR IS PRESENTLY WORKING UNDER THE PERSONAL DIRECTION OF THE NEW LABOR MINISTER, HERBERT EHRENBURG, ON ITS ANNUAL REPORT TO THE BUNDESTAG ON THE STATUS OF THE PENSION FUNDS. IN THIS REPORT, DUE MID-FEBRUARY, , THE MINISTRY IS EXPECTED TO PRESENT A SET OF 15 ALTERNATIVE PROPOSALS AIMED AT CURING THE ILLS OF THE SYSTEM, EACH BASED ON A DIFFERENT SET OF ECONOMIC FORECASTS. ACTUALLY LAST YEAR'S FORECASTS WERE OF LITTLE VALUE BECAUSE PROJECTIONS OF UNEMPLOYMENT WERE GROSSLY UNDERESTIMATED AND ANY NEW SOLUTION WILL BE BASED ON AN ECONOMIC FORECAST WHICH MAY OR MAY NOT PROVE TO BE ACCURATE. THE JOB DECIDING WHICH ESTIMATE TO ACCEPT NOW WILL BE TURNED OVER TO THE BUNDESTAG WHERE DEBATE HAS CONTINUED TO FOCUS ON THE PENSION PROBLEM

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SINCE IT RECONVENED ON JANUARY 19.

IF THE JULY 1 "DYNAMIC" ADJUSTMENT IS TO BE EFFECTIVE AS SCHEDULED, THE GOVERNMENT WILL HAVE TO PRESENT ITS COMPREHENSIVE REFORM MEASURES TO THE BUNDESTAG BY MID-FEBRUARY. HEAVY DEBATE CAN BE EXPECTED UP TO THEN AND WELL AFTER AS PROPOSALS AND COUNTER-PROPOSALS ARE LIKELY TO FLY. NEVERTHELESS, THE EVENTUAL PROGRAM IS LIKELY TO FOLLOW THE ROUGH OUTLINES OF GOVERNMENTAL PROPOSALS ALREADY MADE AND PUBLICIZED. THE DANGER EXISTS THAT UNLESS THEY ARE SATISFIED, SOME FDP DEPUTIES MIGHT NOT SUPPORT THE COALITION'S PROPOSALS, FURTHER DEEPENING THE GOVERNMENT'S DILEMMA. THERE IS NO DOUBT THAT THE PROBLEM OF PENSION REFORM IS THE MOST SERIOUS CHALLENGE THE COALITION HAS HAD TO FACE IN RECENT YEARS.

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